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1	NATIONAL PETROLEUM COUNCIL
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5	An Advisory Committee
6	to the Secretary of Energy
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10	Dolley Madison Ballroom The Madison Hotel
11	Fifteenth and M Streets, N.W
12	Washington, D. C.
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19	Thursday, May 19, 1983
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1 .	PARTICIPANTS:
2	THE HONORABLE DONALD PAUL HODEL Secretary of Energy
3	THE HONORABLE JAN W. MORES
4	Assistant Secretary, Fossil Energy
5	JOHN F. BOOKOUT Chairman, National Petroleum Council
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7	ROBERT A. MOSBACHER Vice Chairman, National Petroleum Council
8	MARSHALL W. NICHOLS
9	Executive Director, National Petroleum Council
10	RALPH E. BAILEY Chairman, Enhanced Oil Recovery Committee
11	THEODORE A. BURTIS
12	Chairman, Petroleum Inventories & Storage Capacity Committee
13	D. A. McGEE Acting Chairman, Nominating Committee
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. 1	AGENDA
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3	Call to Order
4.	Remarks by Honorable Donald Paul Hodel,
5	Secretary of Energy
6	Reports of Study Committees
7	Committee on Enhanced Oil Recover Ralph E. Bailey, Chairman
8	Committee on Petroleum Inventories and Storage Capacity, Theodore A. Burtis, Chairman
10	Consideration of Administrative Matters
11	Report of Finance Committee, T. Boone Pickens, Jr.
12 13	Report of Nominating Committee, D. A. McGee
13	Discussion of Any Other Business
15	Adjournment
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PROCEEDINGS

(10:08 a.m.)

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CHAIRMAN BOOKOUT: If we could call to order the 85th meeting of the National Petroleum Council.

Ladies and gentlemen, you have before you, as usual, the agenda for the morning session. Our first item of business would normally be to call the roll. It is obvious that we have far in excess of the required quorum, so if there are no objections, I will dispense with the roll calling. And ask you, or remind you to make certain that you sign the check-in list, so we will have an accurate record of attendance.

I would like to introduce those at the head table here, on my far left is Dean McGee, Acting Chairman of the Finance and Nominating Committee; then Ralph Bailey, Chairman of the Committee on Enhanced Oil Recovery; next, is the Honorable Jan Mares, Assistant Secretary of Energy, for Fossil Energy and Acting Director of the Office of Policy, Planning and Analysis; on my far right is Marshall Nichols, Executive Director of the National Petroleum Council; next is Ted Burtis, Chairman of the Committee on Petroleum Inventories and Storage Capacity; and Robert Mosbacher, Vice Chairman of the Council; and on my immediate right, of course, is the Secretary of Energy, the Honorable Donald Paul Hodel.

1 Secretary Hodel is well-known to all of us for his distinguished service as Under Secretary of the 2 Interior, and of course, he has been in the forefront on 3 energy policy for the last six months as Secretary of 4 Energy. We are pleased to welcome Secretary Hodel to his 5 first meeting with the National Petroleum Council. 6 I am sure that I speak for all council members 7 and all of us present here this morning, when I say that 8 we stand ready to serve you and your department to the 9 best of our abilities. 10 The Secretary does have some introductions and 11 some remarks for us this morning, and afterwards, he will 12 entertain questions from the membership. 13 Secretary Hodel. (Applause.) SECRETARY HODEL: 16 Thank you. This maybe my first meeting, but to assure you that I have my priorities straight, my second reception. (Laughter.) SECRETARY HODEL: And just to show you what high esteem I hold you, those of you who were at the reception last night while I was there know that I was the only one who showed up in a tuxedo.

(Laughter.)

SECRETARY HODEL: As a result of which, several

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1 of you asked me to serve you drinks. (Laughter.) 3 SECRETARY HODEL: Maybe as we become better acquainted, perhaps that won't happen quite as often. Although some of those who asked me for drinks were close 5 friends --6 (Laughter.) 8 SECRETARY HODEL: Let me start by introducing 9 the new members of the National Petroleum Council, and 10 I don't know what the protocol is -- do we usually ask 11 new members to stand up and be recognized? All right, I would like to do that then. First, is W. A. Barton, of Barton Valve Company, 13. welcome; William H. Bricker, of Diamond Shamrock; Juanita Bryand, who is President of the International General Federation of Women's Clubs is not with us today, she did not attend; William D. Geitz, Union Texas Petroleum, welcome; H. F. Keplinger, The Keplinger Companies, in the back; Harold Pruner, Petroleum/Financial Consultant; Robert J. Thompson, Thompson Well Servicing,

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I think that is my complete list on that. (Applause.)

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"Incorporated; L. O. Ward, Ward Petroleum Company: Morton

Winston, of Tosco is not with us today; and Peterson

Zach, Chairman of the Navajo Tribal Council.

SECRETARY HODEL: I know from the number of people who have spoken to me at other receptions that I have attended from time-to-time all around the country, that service on this particular body is not only a burden and a challenge, but it is also an honor. And I welcome the new participants to this task. It is an opportunity to have a significant impact, I believe, in the community in which you are actively involved and also, to make a real contribution to the course of activities by the Federal Government, and particularly I think by the Secretary of Energy.

I do not have a speech to go through this morning, I have a number of items I would like to cover with you, and perhaps they will trigger additional questions, either on these subjects, or other subjects of your interest, general subjects.

I know, as I look around this group, I have talked to many of you, but just bear with me if you hear some of this repeated because it is not going to be new material.

On the subject of merger of the department, formally called "dismantling", we are still desirous of combining the Department of Energy with some other old-line department, because of what we perceive to be the benefits in management.

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Secondly, I think it is advantageous to get away from the concept that energy is somehow a discrete, separate subject in the economy that we deal with. I think that energy infuses all of our activities in such a way that needs to be dealt with in some more coordinated fashion.

So, we still would prefer, if we could, to merge. We have the urge to merge. However, at this point we certainly don't have the votes to merge. So, it is a matter that does not even have a bill before the Congress at the present time, but it is something that continues to be in our thoughts.

We are working on National Energy Policy Plan

Number 4. In that plan we hope to set forth a policy

statement in general terms and then it will be more specific

as it relates to program. I have been saying in speeches

around the country that it is rather difficult to come

up with a specific energy policy, if one does not know

what the industrial policy of the country may be.

I suggest that the difference between future,
as perceived in MegaTrends, which is a future in which we
are going to be -- and this is not fair to Nasbit (phonetic),
but it characterizes, at least -- we are all going to be
sitting in front of our computers communicating with each
other, as a means of our economic activity. That future,

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versus a future that still requires smokestack industries is very divergent in terms of its energy requirements.

And it is clear to me that a policy statement that we come out with that does not recognize must be prepared as a nation to accommodate whichever course or combination of courses, which is obviously more likely, that will be chosen, is not an adequate policy,

So, the simplest formulation of a policy that I have been able to come up with so far is -know whether this will survive the drafting because it is too simplistic probably - we we need to be prepared to provide an adequate supply of energy at a reasonable price.

and all of the things we do ought to try to lead us in that direction. And we happen to believe the best mechanisms for getting us there lie in the free market and we will move in that direction. With regard to the economy, which is a matter of concern, I don't with which need to reiterate things you are all current with with t is clear to us, that the economy has turned around and is moving progressively.

Early in this year we were living with a 3.1 percent annual growth rate for this year, as the Administration forecast, we have upped that to 4.7 percent, and I notice there are critics today that say we are still

below the level of economic recovery that will actually occur. As that happens and as the price oil has come down and stayed down, I am concerned with one of our most serious problems, to maintain momentum in the area of conservation and renewal, because as we have increased economic activity, increased building, -- this is the very time when we ought to be building structural conservation into the system, and yet, some of these incentives are diminished.

One of the things I think you will see when we try to press, although it is not directly related to the functions and roles of the NPC.

On the domestic front we have a number of key issues, the strategic petroleum reserve issue continues between us and Congress. We are arguing, I would like to point out, between people who believe in the security of this country and believe that it can be enhanced by having a strategic petroleum reserve, we are arguing over the rate of fill.

And our position the Administration's position is that if we reduce our rate of fill somewhat and extend the time it takes to reach the 750 million barrels in the strategic petroleum reserve that we intend to reach, we do not significantly adversely affect the security of the country or its oil supply.

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the country or its oil smpply. We presently have just over 320 million barrels in strategic petroleum reserve. That is at a time when our imports currently are running something around 400 million barrels a day, give or take a little, depending on when you look at it.

When we set to create a strategic petroleum reserve, we anticipated that we would have at this time in our history somewhere between eight and 11 million barrels a day being imported. Clearly, that is not now in the cards and it doesn't look like it is in the cards even with the kind of economic recovery we are now, talking about.

or six years ago you and I had sat down to start a business and we anticipated in the middle 1980s we would need a \$1 billion worth of insurance, it might be reasonable in 1983 to realize that our growth was only half of what we had anticipated. And maybe we only needed half that much insurance, or certainly we didn't need the \$1 billion worth of insurance by 1985 or 1986.

We are suggesting spreading out that rate of fill a bit at a time of severe economic problems to the country is a desirable thing to do and something we continue to press for. It is not unlike merger, it is hard to find the votes for that position right now on the

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Hill, but we are working on it.

Synfuel, I continue to support the completion of some of the projects that we have underway. It seems to me that what is at stake right now is the question of whether a free democratic society has the will to complete something it starts. We have about reached the point we get partway into something, the Clinch River Breeder Reactor is an example, the synthetic fuels projects, are being challenged because the economics don't look the same now.

And I am reminded that for a number of the dams that I was most familiar with in the Pacific North-west, at the time those dams were being proposed the cost-benefit ratios looked lousy, barely made a one point one to one which was sufficient to get by. And the projects were really justified because of their job-creating potential and yet today those are some of the least cost-energy resources in the country. And even if you calculated the way in which interest is charge and other costs, you would find them to be exceedingly inexpensive resources.

It seems to me that we ought to complete the projects that are underway and that the Synfuels Corporation ought to be permitted to seek additional synthetic fuel projects, recognizing that the volumes created by the amount of money now available are not going to effect

significantly our consumption patterns.

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Natural gas, I don't want to beat a dead horse, but natural gas if far from being a dead horse. We have a bill which is very alive, it is in mark-up, our initial effort was to move to essentially de-control through a permissive process, not by mandating it, by permitting parties to negotiate new contracts which would be free of government controls on the price. That has not went with exactly uniform and unanimous support, even within the area of producers -- well, maybe I should say especially in the area of producers.

But we do believe that we have put a bill before the Congress that is a viable approach, it is sound. One of the big problems we have had is people's concern about our proposal to permit abrogation of contract and it is not something we did lightly, it was one of the most difficult problems my staff had with me, when they finally got me persuaded that it was essential. I found that I had more problem with that than any other element of the bill in moving it through the Cabinet Council.

And I am pleased to say that is the case, because
I am glad to see that appointees of President Reagan, a
Republic Administration, are reluctant to muck around
in people's contracts freely arrived at. But it did seem
to us that if we seriously desired to move as close as

possible to a free market, we could not, in good conscious propose a bill, or expect Congress to accept a bill, which did not deal with the effect of contract provisions which were drafted in a totally different framework.

And that is why we did what we did there. We felt also that the creation of the contract carriage provision was exceedingly important because it provides the opportunity for more of a free market with regard to the production of gas.

I keep trying to point out to audiences around the country that gas is not significantly different from other forms of energy. We do not regulate the price of coal, although electric utilities who buy that coal are regulated to the gills, but the price of the coal is not regulated. The oil that they buy to produce electricity is not regulated.

There is no mandate that because a piece of the system is regulated, such as the gas distribution company, or the pipelines, that the price of the commodity itself which heads into that pipeline has to be controlled.

One other element of the natural gas bill which I think is worth mentioning and that is that there has long been concern that if we approached the question of de-control, we would have to deal with proposals for a windfall profits tax.

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Maybe more current than mine, but the most current reading I have is that we are not seriously receiving proposals for windfall profits tax at the present time. And I suggest to you that we need not, that the windfall profits tax ought to be dead as far as natural gas is concerned, no matter what the proposal is that Congress comes out with.

And the reason is that even the consumer groups today recognize that a windfall profits tax does not do what its proponents claim for it. It does not protect the consumer against the imposition of higher prices.

What the windfall profits tax does is it permits the price to pass through to the consumer who must either pay it, or default; it permits the government to go out and collect the tax and manipulate the money for a while, and eventually dribble some of it someplace, perhaps along the line of where it was intended to go, although the consumer groups object further to the windfall profits tax in discussions with me, because they say they can't trust the government to spend the money as it agreed to do.

I think it is a great step forward for democracy for them to reach that realization.

(Laughter.)

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SECRETARY HODEL: Therefore, when you put those pieces together, a windfall profits tax -- oh, and one other element that they point out is that the consumer in the end pays the tax. And I think that, also, is a great recognition on their part.

The net result of those recognitions is that anybody who proposes a windfall profits tax must be perceived as being anti-consumer. And if you will continue to carry that message, I don't think you will see strong effort, because a windfall profits tax is, in fact, an anti-consumer measure. It does nothing to benefit the general consumer, it doesn't even benefit the alleged specific beneficiary of the windfall profits tax fund in the manner in which it was anticipated.

I think that one can be kept in bed and put to rest, no matter what form the bill will take. It is in mark-up, as I say, in the Senate; it starts mark-up next week in the House, which puts us far ahead of any schedule we would have anticipated possible back in January, when we really got serious about this, but still a long way from a finish line. And it is anybody's guess as to what will happen ultimately, it is a very difficult process, we've got a lot of help and many people who are concerned about this are working the issue very hard — sometimes on opposite sides of the issue.

A couple of things with regard to foreign activities, I have just returned from an International Energy meeting in Paris, which I think was a very successful meeting, not just for the United States, but for the Western World, members of IEA. The concensus that we reached there, one of the conclusions from the energy study, was that it was not desirable for any nation to become unduly dependent upon any single source or supply.

Many there tried to get me to say that that was aimed solely at the Soviet Union, and I refused to be put in that position, because it is not accurate. And I pointed out, when I was with the Bonneville Power Administration I operated a system that was 95 percent hydro-electricity. And when we had a water shortage, we had a power shortage. And we were unduly dependent upon a single source of supply.

We don't plan investment portfolios by having all our eggs in one basket, we don't eat our food by eating only one kind of food -- we recognize a balanced diet is important. And the same is true in this international area, we need not and should not be dependent upon any single source.

So, I think there is a positive support for that idea now in Europe and there were some significant efforts coming forth from them to find alternative sources of

energy.

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One of the things that struck me was, and something I hadn't focused on previously, was these oil prices have come down and have had a significant benefit in the United States, in terms of costs of imported oil. has been about a 7 percent real cost decrease in the United States in the price of oil. But in foreign countries because of the strengthening of the dollar and because international oil is purchased in dollars, Japan and France, for instance, are now paying 20 percent more than they were two years ago for oil. Somthing that is overlooked and it suddenly hit me that when we talk about our economy is responding more rapidly than some of the other economies, we are rebounding more rapidly, I can't help but wonder whether the effect of that kind of change and diversity in the way in which we are responding to imported oil is a factor in the rate at which they can respond.

There was considerable talk at the IEA meeting about stabilizing world oil prices, that means putting a floor under the fall and I have opposed that personally, I do not think that is a proper role for us. Some of the producing nations, other than OPEC, I think are quite comfortable with the idea that there ought to be stability in oil prices and would support that.

There are proposals that I keep hearing that we

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should have some kind of import fee. And, in fact, I have talked to some of you in this room about that issue from time-to-time. At the present time my position remains I do not support an import fee, I have several reasons, a couple of them are these: first of all, the market in working, the price is coming down, it benefits the American consumer and I think it is unseemingly at this time for us to go forward and say "Now, that the price is coming down and the market is working, we are going to take it away from you by imposing a \$5 or whatever per barrel import fee".

I like to point out that when the President in the State of the Union talked about an oil tax, he was not talking about import fee alone, he was talking about both an import and a domestic fee to be held in reserve in the event three, now unlikely circumstances all occurred, that is different from a import fee standing on its own.

Another objection to the import fee is I fear that we would be dragged back in, as the Department of Energy, into something that's akin to the entitlements program, in tracing those barrels of oil, and the claims by some parties as to the way in which an import fee is adversely affecting them might very well lead to an effort on our part to be fair and to allocate, and to entitle. And I think that would be a disaster, and I would hope

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that we will not lead ourselves down that road.

Finally, we are participating, as many of your companies are, in the emergency preparedness activity AST-4 Test, which is going on with the International Energy Agency at the present time. I think that will be an excellent test, it will help us establish whether or not we have the necessary authorities in place to deal with the various kinds of emergencies that might arise.

It is very difficult imposing a test to do one that is realistic, because it is one thing to sit here calmly and quietly when you don't have a crisis and say, "What would I do if", and it is quite different to be trying to sit around and figure out what to do when your phone is ringing off the hook because of people who are outraged by what is currently happening in that crisis. But I think it will be very instructive.

There are some non-fossil energy, non-Petroleum Council type issues which I will only mention, in case they are of great issue, you can ask me about them. We continue to work on the Clinch River Breeder Reactor effort, we have proposed nuclear licensing reform legislation which we believe, if adopted, would reduce the period of time it takes to license a nuclear power plant up and running; we continue to be active in our defense programs area and that continues to be a major portion of Energy's

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activities.

The bottom line is I want to welcome you all, especially the new members. I appreciate the advice we have received and expect to continue to receive, and I thank you for your participation. I hope that people realize this really is more than a labor of love, it is one in which considerable personal time and expense is involved to be a part of this process, and we welcome that and appreciate your dedication. I hope that we will have many more opportunities to meet together and talk.

Thank you.

(Applause.)

SECRETARY HODEL: John says I am supposed to take questions. I will be happy to do that, if there are any left.

MR. CALDER: I didn't exactly understand what you meant when you said in this International Energy Conference that the Soviet pipeline in relation to spreading out your energy sources.

SECRETARY HODEL: The question is the relationship of the Soviet pipeline to this spreading out of
resources. Go back a couple of years to the Ottawa
Summit, and at that time President Reagan pointed out
that we were concerned about energy security in the IEA,
western nations, International Energy Agency and OECD

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member nations. And at that time, or shortly thereafter, the Soviet pipeline became an issue and it wasn't just a Soviet pipeline, it was possibly a second Soviet pipeline. This was shared, in fact, by many interests in those countries who were concerned that they could become unduly dependent upon a single supplier, which may or may not be reliable over time.

It was our suggestion that there should be some alternatives available, but there wasn't a policy foundation really for that decision. The thinking at that point was that there was basically one source and one issue, the issue being price. And as we know, price is made up of more than just your unit cost, it sometimes also is insurance and reliability, and environmental factors and a whole host of things go into cost, ultimately for a nation, particularly.

That is what we achieved at the meeting through the studies that have gone on, we have reached agreement that undue dependence is what we ought to try to avoid.

The United States initially suggested that a

30 percent limit be applied, and that is just not possible
for some countries; some countries are 100 percent dependent
upon imports and don't have much option at the present
time as to where it comes from.

But the undue dependence point is one which we

. 1	think we can live with and it will be interpreted on a
2	variety of bases. You may be unduly dependent upon a
3	relatively small source if it is highly unstable. Con-
4.	versely, you may be able to take a higher percentage from
5	a relatively reliable and more stable source.
6	The bottom line is I think there is much more
7.	concensus among the western nations now as to how they
8	ought to approach the analysis of what are appropriate
9	energy sources than was previously the case.
10	Does that answer your question?
11	MR. CALDER: Yes.
12	SECRETARY HODEL: Yes?
13	MR. McLEAN: Mr. Secretary, in view of your
14	observations about the present disenchantment of consumer
15	groups of the windfall profits tax, would that suggest
16	that there be a possibility of repeal of the all windfall
17	profits tax?
18	SECRETARY HODEL: I wondered if anybody would
19	make that connection.
20	(Laughter.)
21	SECRETARY HODEL: If you can get it by the OMB.
22	That's off the record, folks.
23	(Laughter.)
24	SECRETARY HODEL: I haven't carried it that far,
25	I haven't analyzed that. I am very much speaking about
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it at this stage in the context of new legislation in the natural gas arena. It seems to me the arguments ultimately are just as valid there, as they are here. The difference being you there have an existing revenue source that is very hard to unhook the Federal Government from at this point. MR. McLEAN: Well, you can predict what the

courts might do, but what about the possibility of the unconstitutionality?

SECRETARY HODEL: Well, that would resolve it if it was determined that it would be unconstitutional. If it is determined to be constitutional, we are back in the boat we are in right now. And in principle, I think we oppose a windfall profits tax, always have. And I think the arguments are valid across the board, but I am not carrying the battle, I have enough battles with natural gas. As I say, I haven't carried them any further

MR. PARKER: On the natural gas, Mr. Secretary, when you introduced your gas plan there were three or four others in the wings. Are you aware now of any other counter-gas legislation big enough to bother you?

SECRETARY HODEL: Well, there are major efforts by other points of view to find alternatives to the natural gas proposal. I think there is a concensus at the moment -- you could get a concensus that something has to be

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done by NGPA, and that is the end of the concensus. The question is what will it be?

But basically, the issue is, I think, between

-- well, three issues, do nothing, and there are some

proposals that look an awful lot like that in the end,

when you strip away all of the verbage, they basically

don't do anything. Then there is our proposal which

tries to move us toward de-control as rapidly as possible

with the necessary protection. And then there are what

I view as essentially re-control proponents or proposals,

which we thought in the Lame Duck Session were very serious

risks.

I think the fact that we had a warm winter and the fact that there is a responsible alternative before the Congress now has helped minimize that somewhat.

There are those who believe we will have a stand-off between the re-control and the de-control forces and therefore, the non-action will ultimately prevail. I don't know that that is right, I think Congress is going to be very reluctant to go home in October without having dealt with the natural gas issue, because we know we had a 10 percent warmer than normal winter. There will be rate increases that have been approved that have nothing to do with the cost of gas, rate increases as a result of operating costs of pipelines and distributors which will

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increase prices 15, 20, 25 percent,

If next winter add those costs to a normally cold winter, not a more than normal, just a normally cold winter, consumers are going to see bills that are 15, 35, 40 percent higher again next year than they saw this year. And a consumer, I don't believe, looks at the bill and calculates how much he is paying per therm or per BTU, it takes a look, my monthly bill was \$200 last year and this year it is \$250 or \$225, why this outrage?

And if I were in Congress, I would be nervous in some of those districts, based upon what I have seen and the people I have talked to -- going home not having done a thing. I think there would be great pressure to pass something.

That is why it is important to remain eternally vigilant during this session.

Yes?

MR. OLSON: Mr. Secretary, I understand that last week the Senate Committee on Energy completed it markup on carriage, do you know what any of the details of that are?

SECRETARY HODEL: Well, I should, I have received a briefing, but I would probably botch it up. Just let me say that my understanding is that it is, basically, quite a strong contract carriage provision which would

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provide opportunity for producers and consumers to negotiate for transport through a pipeline. And we support that approach in principle, we have it in our bill, I think the last I heard the proposal that was approved was stronger than what we had originally proposed, and we were quite comfortable with.

MR. OLSON: Thank you.

SECRETARY HODEL: Yes?

MS. DEWHORN: Mr. Secretary, In the synfuel areas you indicated that you would like to see support for existing projects, as well as see the Synfuels Corporation seek additional projects, are you in favor of full support, or cooperative support?

SECRETARY HODEL: Can you hear the question?

The question is with regard to my support for the Synfuels Corporation and projects by the Synfuels Corporation, what level of support are we talking about, full government support, partial government support, price supports, interests, or what?

I don't have a good answer for you. At the present time what we are dealing with is a Synfuel's proposal which says that we will provide price support up to a limit, and loan guarantees. That strikes me as not an unreasonable kind of approach. The dollars involved could make it unreasonable in any given situation; in

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principle it seems to me it is not unreasonable, but in practice it could be.

I think you have to look at those projects, each on its own and there will be all kinds of divergent elements, I understand, in each proposal.

At this point I think I am supporting the Phase 2 approach of the Synfuels Corporation, I would like to see them able to enter into some of those arrangements.

I would be very reluctant to see the Synfuels Corporation, because it could not do some of these kinds of projects, price support projects, be forced into the situation where it starts to contract for construction of these projects itself. I just believe that would be undesirable and not beneficial in the long run. And yet the statute forces them to do that, if they can't do it through price supports.

MR. PRUNER: You said you have seen oil prices come down cold and certainly there are reports from the DOE and now the Treasury Department are in the act saying that the price is going to go down another \$5 by 1985, and it is there prediction it might get to the \$22 to \$26 range. And you are saying you do not favor a floor, is there a price, if it did continue to decline, at which you see some problem with the banks and with the country as a whole, relative to trying to keep some stable price?

SECRETARY HODEL: The question is how far will

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the OPEC price go, and is there a level to which -- or oil price go, and is there a level it could reach which, in my view, would be a problem for banks and industry?

Undoubtedly, any drop in price at all is a problem for somebody. We know that there are some countries, producer countries today which have been adversely affected by the drop that we have had. If it goes further, they will be further adversely affected, and I assume some individual producers would be adversely affected, some banks, presumably. Although I think what has happened is the duration of what has happened has given banks an opportunity to do some adjustment, already in their financing, to protect themselves -- although how much they could stand, I don't know.

I am not a believer that a precipitous price drop would be of any length and duration. I may be wrong about this, but I don't believe that if we had a sudden precipitous price drop below what the market clearing price is, that the price would stay there, it would bounce. And when it bounced it would come back somewhere in the range of what the market clearing price is.

And I still think if you have a free market out there, the market clearing price would be somewhere in -- and I will keep saying it -- the mid-twenties. I have never said \$25, but that doesn't fit a headline, mid-twenties

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does not fit a headline, \$25 does. I have not said \$25, I have said the mid-twenties and when it looked here a week or two ago like really the \$29 OPEC price was going to hold and was stabilizing, I told my staff that if it gets to \$28.90, that is by definition the mid-twenties.

(Laughter.)

would stabilize as early as it appeared to have stabilized, because I think you have too much over-supply capacity at the present time. As long as you have that much over-supply, it seemed to me it wouldn't be until June or early July, that you would get the bottoming out. But I did think it would be somewhere in that mid-twenties range.

I think by the time you count the discounts, we are probably in that ballpark now.

Now, where does the price go? We always have to state this in terms of if all things remain equal, that the middle eastern war doesn't get any hotter, nor any easier; if we don't suddenly increase production capability from somewhere; no single country or no group of countries suddenly drop out. There is no embargo, or there is no interdiction of supply, or who knows -- if everything remains equal, the economists keep telling me because of the over-supply capability compared to the demand, that it will be a year or two, or perhaps even three before we

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What is interesting is there is a concensus among all of the people I have talked to that the price will go back up. And the only question is, how soon? That it will stablize somewhere near where it is now, or slightly lower than it is now, and it is going to stay there. And then as consumption patterns change, it will start back up.

I think one of the impediments is the one I identified, remember that Japan and France aren't seeing a price drop, they are seeing a price below what it would have been, if it hadn't been for the price drop. But in net terms, they are not seeing a price drop because they are buying that oil in dollars. And I think that is a significant fact to take into account.

So, I believe that if you have stability, that the price will probably stabilize at roughly where it is, maybe a little below where it is today. And if it were a completely free market, it would drop, I am confident.

One of the factors we can't evaluate is the stock situations, stocks have come down fairly dramatically but not unprecedentedly, and I don't think the stocks are unusually low for the level of consumption that is currently going on. And, therefore, how fast will the stock

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re-building take place, nobody can tell me that either.

And I would expect people to be a little cherry about building stocks right now, in view of the history of the last year.

So, those all become factors in this process, and I think that it is likely it will be stable for a while.

One more question, yes, sir?

MR. TRICE: Mr. Secretary, with respect to the price of gas, have you and your staff determined what we might expect from new gas, the capital from new gas, 134, 234?

SECRETARY HODEL: Well, I don't know what to say today, because we have been operating with the figure that says that under our bill, if our bill had been adopted, we thought that the market clearing price for natural gas in January dollars would have been about \$2.75 market clearing. We thought that that would be -- some old gas would move up toward that, some new gas would move down towards that, we didn't think either would go all the way to that price. That is not too far off, the Canadians seem to be moving toward, with some of their possible incentive rates.

But I am told that we are going to get an Energy
Information Administration report come the first of the
week which will cast some doubt on those numbers. It

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would indicate, apparently their estimation would be that prices would be somewhat higher. I think it is very much dependent upon the assumptions one makes. I think our assumptions are valid and I think that something under \$3 is a valid price.

John, I want to thank you very much. (Applause.)

CHAIRMAN BOOKOUT: Thank you very much, Mr. Secretary, we are most grateful for that most clear articulation of the Administration's position on some very important issues, issues that are most important to our nation and many of the people that are here.

We would be very please if you can remain to hear some of the committee reports, but we understand that you have a very busy schedule, and if that is not possible well, we extend our best wishes to you on your efforts to enact some of the programs that you covered with us.

Now, our next agenda item has to do with committee reports. And, as you know, the Council has two studies in progress with the Department of Energy, Enhanced Oil Recovery and Petroleum Inventories and Storages and Capacities.

These committees, of course, have been working rather diligently and their chairmen will bring us up to date on their progress.

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The first will be by Ralph Bailey, who is Chairman of the Committee on Enhanced Oil Recovery, and will present his committee's progress report at this time.

MR. BAILEY: Thank you, Mr. Chairman.

In my last report of December 1st, last year,

I outlined the work plan and the organization needed to

carry out a complete restudy of the 1976 Enhanced Oil

Recovery Study and, at that time, although staffing had

only begun, it was already clear that the study would

receive strong support both within and outside the Council.

This support has continued, resulting in a working organization staffed with 70 highly qualified professionals drawn from diverse technical backgrounds. As you may recall, the study organization consists of the NPC Committee on Enhanced Oil Recovery, a coordinating subcommittee, and four task groups.

The committee met yesterday and received a progress report from its working groups, and today I would like to discuss what these groups have done todate and their present outlook for the remainder of the study.

A major activity has been the preparation of a reservoir data base. This was a greater undertaking than we had originally planned, mainly because the available data bases were very incomplete.

The original Department of Energy data base, which

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consisted of about 2,800 reservoirs, was expanded by incorporating other available data bases. This combined data base was distributed to the industry representatives for extensive checking and modification and additions. And at present, the data base consists of over 3,500 reservoirs, representing about 75 percent of the estimated total oil originally in place in the United States.

The net result is a far better base than previously available to us, and credit should be given to the Department of Energy at Bartlesville and the industry participants, for this outstanding resource that we now have.

The enhanced oil to be forecast by the study will be based on two cases: One, an implemented technology case which will include that oil obtainable with field-tested technology; and, two, an advanced technology case which will include that oil obtainable with improved technology that appears feasible over the approximate 30-year time frame of the study.

The three process task groups have developed screening criteria to separate the data base into subsets applicable to each process, for both technology cases. Preliminary screening for the advanced technology case indicated that 88 percent of the oil in place appears to be suitable for chemical enhanced recovery, 30 percent for miscible displacement, and 19 percent for thermal.

The percentages obviously add up to more than 100 percent because many of the reservoirs appear to be suitable for more than one process and, later on, the economic runs that we will make will eliminate the overlaps.

The models being used to predict process and economic performance simulation are based on ones originally prepared for the Department of Energy, and have been extensively validated, calibrated and modified by the task groups.

While these models were developed for screening and gross estimation only, they are well suited, we think, for use in a study of this nature.

The Coordinating Subcommittee is addressing environmental concerns to a greater degree than done previously. To do this, selected members of each process task group were assigned to work with Hal Scott of the Florida Audubon Society, who is a member of the Coordinating Subcommittee, and this group has visited typical installations for all major enhanced oil recovery processes.

The study will include a separate appendix in the final report, to specifically address environmental issues.

Concurrent with the work described previously, the Coordinating Submittee and task groups have developed background information for the inclusion in the report text.

There has been significant progress on those parts of the report that are not dependent on calculations or results of the various models. The Coordinating Subcommittee proposes several major changes, compared to the 1976 study.

These changes will include discussion of changes in enhanced oil recovery since 1976, the relationship of EOR with other energy sources, environmental issues, and the implication of future research in the EOR field.

The study's primary objective is to define a consistent, reasonable estimate of the amount and the timing of incremental enhanced oil that might be recovered from U.S. reservoirs under various assumptions of technology and other constraints.

The estimated date to submit a draft report to the NPC Committee on EOR is now December 15th, and that is two months later than the original estimate. The work involved to update the data base to its present quality, as well as to modify and improve the various models, has required more time than we originally had anticipated. However, completion of the data base and validation of the process models lay, we think, a very solid foundation for a high quality study.

Beginning in June, it should be possible now to complete economic runs for each of our major processes, and

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then to combine them into an implemented technology case. This process will then be repeated for the advanced technology case.

The Coordinating Subcommittee has expressed its gratitude to the members of the Committee on EOR, for all their support, and I might add parenthetically that it really has been this strong support, the willingness to make the talent and people available to us that has let this group do their work so well.

The quality and dedication of all the participants has been outstanding. We are particularly pleased with the very positive and cooperative spirit from the co-chairmen and the other participant from the Department of Energy, as well as the NPC staff.

And I think even todate, the work that has been done has resulted in a lasting contribution to this subject. The present data base, which will be available to industry and to government, academia and the public, far surpasses anything that was previously available, both in quality and in quantity.

The Committee on EOR believes that, on completion, the study will provide the most extensive, accurate look at enhanced oil recovery potential todate. This has not been an easy task for our working groups, and I would like to recognize the Chairman of the subcommittee, who has

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helped organize all this work and pull it together, Mr. Buck Curtis -- will you rise, Buck? Buck is from Conoco and has helped make my job a great deal easier.

With that, Mr. Chairman, that concludes my report, but either Buck or his task group chairmen who are also in the room, or myself, will take any questions, if there are any.

CHAIRMAN BOOKOUT: Thank you very much, Ralph, for this progress report. Does any member have any question regarding the scope of the work or the direction in which it is proceeding?

(No response.)

I think it is a real tribute to our industry, the way the industry so willing shares, which very often is proprietary data and information, in this very important field. The Council has been responsible in the past form several reports in the areas of enhanced recovery, and I think we all know, from our participation in that work, that as often goes unnoticed, how willingly the industry does, in this case, make available the efforts of its research and development and provide the data to make it possible to present an exceedingly important report for our country, to the Department of Energy.

If the membership will bear with me, because of schedules, I would like to break the sequence in this, and

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1 turn to one of the administrative matters, and that is the 2 report of the Finance Committee. 3 The Finance Committee met yesterday, to review the Council's operating budget for 1983. John Phillips, 4 Chairman of the Finance Committee, was present at that 5 meeting, but he was unable to be present at today's meeting, 6 and he has asked Boone Pickens, who has kindly consented, 7 8 to present his report. 9 Boone does have another appointment, having to leave about 11:00. We are all very knowledgeable on how 10 skilled Boone is in financial matters, and I know you 11 wouldn't want to miss hearing Boone talk about our financial 12 13 situation. (Laughter.) 14 15 Boone? 16 MR. PICKENS: Thanks, John. 17 (Laughter.) Chairman, members of the Council, the 18 Financial Committee met Wednesday, to review the financial 19 20 status of the Council. At our meeting, we reviewed the calendar year 21 1982 financial statements with representantives of Arthur 22 Young and Company, the Council's independent outside 23 24 auditors.

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I am pleased to report to you that the financial

position of the Council is sound, and the accounting controls and procedures received excellent marks.

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We discussed the revised budget for calendar year 1983. As you may recall, at our last meeting, you approved a budget of \$1,675,000 for 1983. This budget included funds to complete the Enhanced Oil Recovery and the Petroleum Inventories and Storage Capacity Studies that you have heard progress reports on this morning.

This budget also included funds for renovation and deferred maintenance items for the Council offices in the Commonwealth Building. It now appears that both of the studies will require more time and computer work than was originally estimated, and the renovations to the Council offices will be more costly than we first expected.

Therefore, we have increased our 1983 calendar year budget recommendation to \$1, 990,000. The committee also discussed and recommended a 1983-84 contribution level. Even though it is necessary to increase the calendar year '83 expenditures, we recommend holding contributions request to the \$1,350,000 level of last year, and reducing the contingency fund to cover the increased expenditures.

Accordingly, Mr. Chairman, the Finance Committee recommends that the Council approve a revised calendar year 1983 operating budget in the amount of \$1,990,000, that 1983 contributions be the same as 1982, and that additional

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1	expenditures be made from the contingency fund, as neces-
. 2	sary. We also recommend that Arthur Young and Company
3	continue as independent public accountants, for examination
4	of our 1983 financial statements.
5	Thank you.
6	Mr. Chairman, I move that the report of the
7	Finance Committee be adopted by the Council.
8	CHAIRMAN BOOKOUT: Thank you very much, Boone,
9	for that report. Do we have a second for the motion?
10	VOICE: Second.
11	CHAIRMAN BOOKOUT: Thank you very much.
12	Is there any question or discussion at this time?
13	(No response.)
14	All those in favor, please signify by saying
15	"aye".
16	(Chorus of ayes.)
17	Those opposed?
18	(No response.)
19	Thank you very much. The report is adopted.
20	Now we will return, again, to Item 3(b), and we
21	will hear from the Committee on Petroleum Inventories and
22	Storage Capacity. That committee has also been very busy,
23	and Ted Burtis is Chairman of the committee, and he will
24	now report the progress of his study.
25	MR. BURTIS: Thank you, John, Mr. Chairman,
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ladies and gentlemen, as you may recall, in November of 1982, the Secretary of Energy requested that the NPC undertake a study to update the Council's 1979 study on Petroleum Inventories and Storage Capacity, and he also requested that -- and this is a quote from the letter -- "Other aspects of the overall U.S. petroleum inventory and storage system should be discussed, as appropriate."

In recommending that the Council accept the Secretary's request, the Agenda Committee noted that demand patterns and industry operations have changed rather dramatically since the 1979 report, and that a current study then should give the Secretary very useful information, particularly in emergency preparedness planning.

The Council accepted the study request in December of 1982, and the Chairman appointed a Committee on Petroleum Inventories and Storage Capacity and asked me to serve as its chairman. Mr. J. Erich Evered, of the DOE, was appointed as government Co-Chairman.

This study report will be the tenth in a series on this subject that has been prepared by the Council since The committee held its first meeting on March 18th 1948. of this year. We approved the scope, organization, methodology, and timetable for the study.

As was the case in the 1979 report and those preceding it, the study will focus on the primary

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distribution system but, for the first time, we will try
to get a better understanding of the secondary and tertiary
segments which can affect petroleum supplies in the primary
system.

The Coordinating Submittee and the Task Group on the Secondary and Tertiary Storage have been formed to assist the committee.

The study will survey the companies that report primary inventory data on a monthly basis, to the U.S. Department of Energy, and the survey will cover crude oil and major refined products -- that is, gasoline, kerosene, kerosene-type jet fuel, distillate fuel oil and residual fuel oil. Some limited data will also be collected on naphtha-type jet fuel.

The crude oil data will be requested for a specific date, for March 31, 1983, and product data will be requested for September 30, 1982 and March 31, 1983, to reflect the seasonality of the system.

This survey will include questions on primary inventories held and the amount considered unavailable for use, the minimum operating levels of petroleum inventories, primary storage capacities and the portions required for normal operations, and the capacity of storage facilities under construction.

The questionnaire utilized in the survey will be

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similar to that which was used in the previous study, although aviation gasoline data and data for U.S. territories and possessions will not be collected.

The data will be reported by PADD districts, with District I subdivided into three regions. Because times have changed, the survey will include some questions not examined during the previous study -- that is, questions regarding the impact, if any, of petroleum futures trading on inventory management, the extent to which excess refining capacity is being utilized as a substitute for a portion of seasonal inventory, and the impact, if any, of the strategic petroleum reserve on private crude oil inventory levels.

As has been the case in the past, individual company data will be held in the strictest confidence.

The independent public accounting fire of Price Waterhouse has been retained by NPC, to receive and to aggregate the survey returns, and only aggregated results will be provided by Price Waterhouse, to the Countil.

The study will include a description of the secondary and tertiary segments of the secondary and tertiary segments of the secondary to the primary segment.

The previous study estimates and storage capacity for gasoline and distillate fuel and in the secondary

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and tertiary systems was at least 60 percent of that of the primary segment, which is, of course, a very large amount and could have significant implications for emergency preparedness planning.

So, the Secondary and Tertiary Task Group will develop a methodology which does not now exist but will be developed, to better estimate the storage capacity of the secondary and tertiary segments of the system.

The study will be done in two phases. The primary segment data and the initial analysis will be available for committee and Council review in the fall of this year, and will be available as an interim report. The final report, which will include the secondary and tertiary, will be prepared and ready for consideration by the early Spring of 1984.

John, I think that's the extent of my report.

If I can answer questions, I will. If I might, the Chairman of the Coordinating Subcommittee is Warren Burch, so if there are any hot grounders, he will probably be the one who has to field them.

CHAIRMAN BOOKOUT: Thank you very much, Ted. Warren, you might stand so we can identify you properly there. Thank you very much.

I know you join me in wishing to commend these groups for their efforts on both of these rather important

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studies. We all have dealt with the rather frustrating problem of trying to determine what inventories are, and certainly this is a bold step to try to classify inventories at all levels, which would give us a very important better understanding of what is happening in the supply and demand picture.

They are making excellent progress, as we can see, and I would think that from these interim reports, that we could look forward to receiving maybe final reports, or certainly late stage progress reports, sometime late November or early December. You will be hearing shortly from the Council staff regarding the specific date that we would like to call to your attention and hope that you will hold for that future meeting.

Now, the report of the Nominating Committee,

Item 4(b) on your agenda, is next. Dean McGee has been asked to present the report of the Nominating Committee on behalf of Bob Anderson who could not be with us today.

Mr. McGee?

MR. MC GEE: Mr. Chairman, ladies and gentlemen, the Nominating Committee of the NPC met yesterday and agreed on the following nominations for officers and Chairman and members of the Agenda and Appointment Committees of the Council.

For NPC Chairman, Robert A. Mosbacher; for NPC

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1	Vice Chairman, Ralph Bailey. For the Agenda Committee, we
2	nominate the following: Bill Carl, John Carver, Collis
3	Chandler, Ed Cox, Cliff Garvin, Fred Hartley, John
4	McKinley, Dick O'Shields, John Swearingen and Al Whitehouse
5	with A. V. Jones serving as Chairman.
6	For the Appointment Committee, we nominate the
7	following: Ted Burtis, David Dorn, Jim Emison, Fred
8	Hamilton, John Haun, Mary Hudson, Jim Lee, Sid Petersen,
9	Boone Pickens, and Don Simmons, with Harold Hoopman serving
10	as Chairman.
11	Mr. Chairman, this completes the report of the
12	Nominating Committee, and I move that the Council elect
13	the foregoing slate for 1983.
14	CHAIRMAN BOOKOUT: Thank you very much, Mr.
15	McGee. I have a motion to adopt the Nominating Committee's
16	slate of officers. Do I have a second?
17	VOICE: Second.
18	CHAIRMAN BOOKOUT: Thank you very much. All
19	those in favor, please indicate by saying "aye".
20	(Chorus of ayes.)
21	Opposed?
22	(No response.)
23 ·	The motion is adopted.
24	My notes say I'm supposed to try to razzle-dazzle
25	you, which I couldn't do anyway, with all the great things
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that I've accomplished in the last two years, none of which I did; all was accomplished as a result of the hard efforts of the group that is assembled here, so I would like to dispense with those and say simply that I have been honored to serve as your Chairman.

Certainly, I consider it a very high honor to be selected for that purpose. The opportunity to serve an important group like this, which presents such, I think, important studies that wouldn't be possible for our government to receive in any other manner, does serve a very sincere national interest, and we all benefit by that in the country.

I think, perhaps taking a page out of one of our former chairmen's book, Charlie Murphy, he said, "You know, I didn't ask for this job anyway". Charlie, I didn't ask for it.

I guess the main concern I have in surrendering the post is, how is it going to affect my standard of living -- you know, giving up my large compensation matter -- but I see you have managed to survive and do reasonably well, and perhaps I will call on you and get a few helpful suggestions in that regard.

I know you will be very anxious to hear the views of the incoming Chairman and, at this time, I'd like to call on Bob Mosbacher, who has a word to say.

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(Applause.)

MR. MOSBACHER: Thank you, John. I think what you and Charlie are both saying is that when you work for free, promotions come fast.

(Laughter.)

I am, needless to say, honored and delighted to become Chairman of this august body, and I think if I c:an do half as good a job as our former outgoing Chairman, who has done such a magnificent job as John Bookout has done.

I'll be happy. Thank you, John, for your efforts.

(Applause.)

CHAIRMAN BOOKOUT: Thank you, Robert, and I wish you all the best. I know you can count on the full cooperation, as I have been able to do, and all those who have preceded me.

Ladies and gentlemen, I have one other item of business to bring before you this morning. In years past, perhaps some of you remember, the Council presented Certificates of Appreciation to individuals who evidenced outstanding contributions of time and expertise to the study effort of the NPC, contributions well beyond even the Council's extraordinarily high standards.

This practice has been dormant for the past ten
years or so, but an individual has just retired whom I
believe should be recognized by the Council for his dedicated

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service for nearly 20 years, as a member of NPC and its studies.

Therefore, the NPC Certificate of Appreciation has been revived for that purpose. Warren B. Davis has just retired from Gulf Oil Corporation after 42 years of service.

He originally worked as a roustabout, laboratory technician, petroleum engineer, all in the Tulsa Division of Gulf. In 1956, he went to Pittsburgh, when Gulf's Planning and Economics Department was formed. He was Director of Economics from 1969 to 1976 and Gulf's Chief Economist from 1976 until his retirement this past February.

His participation in NPC studies dates back to 1962, to the working subcommittees of the Committee on the Impact of Oil Imports from the Soviet Block. He then served on that study's update one year later, and on the following studies — the Coordinating Subcommittee for Future Crude Oil Producing Capabilities, the Task Force on Economics and Policy Factors, the Technical Subcommittee on U.S. Petroleum Imports, and the Coordinating Subcommittee of the Committee on Ocean Petroleum Resources.

His most notable contribution, and the one that

I wish to highlight today, were as Chairman of the Coordinating Subcommittee of two of the most concentrated and complex efforts in the Council's recent history -- that is, the

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20-volume U.S. Energy Outlook Study of 1970 and 1972, and the 3-volume Refinery Flexibility Study of 1980.

Warren, would you please come to the head table so I can present the Council's Certificate of Appreciation.

(Applause.)

Would you like to say something?

MR. DAVIS: I guess I would. I couldn't hardly get up here without saying something, could I?

I guess I'd like to point out that the appreciation is not all on the side of the Council; quite a lot of it is on my side.

The Council is a really critical organization, in my mind. There aren't any of us anywhere that don't want this to be a better country, and mostly we run into problems because we don't have the same ideas about what is a better country or how to get it. And I think the Council provides one of the very best means of communication in that respect, and for this reason I think it is very critical to the Department of Energy and to the U.S. Government. The alternative is to come around and ask a bunch of you individually, and I don't think the DOE can do near as well at that as they can by having the Council to consolidate the ideas and bring them together for them.

But the other side of the thing that we don't hear as much about as perhaps we should is, how much value

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the Council and its studies is to your company, in particular to the people that you put on the studies. What I'm saying is, you ought to always put the best people you've got on these studies because they are going to learn so much. You want to take your people that are your best people to start with, and improve them.

The tougher the study, perhaps the more good it does. I still remember from 12 years ago, as we were adjourning a terrible three-day meeting of that Coordinating Committee of the Council Study on U.S. Energy Outlook.

Harry Gebhardt says, "Man, I want you to know, I've enjoyed this meeting as much as being proctoscoped".

(Laughter.)

The tougher the dealings you have to get into,
the more you learn and the better off you are. And I think
I ought to express my gratitude to the Council because it
is a marvelous learning process.

(Applause.)

CHAIRMAN BOOKOUT: Thank you very much, Warren, and we do hope you enjoy your retirement at Kitty Hawk, North Carolina.

Does any Council member have any other matter to raise at this time, Old Business or New Business?

(No response.)

Does any non-Council member have any matter they

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1	would like to raise at this time?
2	(No response.)
3	There being none, there seems to be no further
4	business. Again, before calling for a Motion to Adjourn,
5	I want to say how much I appreciate your unselfish giving
6	of time and support over the past two years.
7	May I have a Motion to Adjourn?
8	VOICE: So moved.
9	VOICE: Second.
10	CHAIRMAN BOOKOUT: All in favor?
11	(Chorus of ayes.)
12	The meeting is hereby adjourned. Thank you.
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This is to certify that the foregoing transcipt

In the matter of : An Advisory Committee to the

Secretary of Energy

Before:

National Petroleum Council

Date:

· 10 4 10 15 41

Thursday, May 19, 1983

Place:

Dolley Madison Ballroom

The Madison Hotel

Fifteenth and M Streets, N.W.

Washington, D,C,

represents the full and complete proceedings of the

aforementioned matter, as reported and reduced to typewriting.

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